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FM AMEMBASSY HARARE
TO RUEHC/SECSTATE WASHDC PRIORITY 9657
INFO RUCNSAD/SOUTHERN AFRICAN DEVELOPMENT COMMUNITY
RUEHUJA/AMEMBASSY ABUJA 1115
RUEHAR/AMEMBASSY ACCRA 0947
RUEHDS/AMEMBASSY ADDIS ABABA 1121
RUEHBY/AMEMBASSY CANBERRA 0381
RUEHDK/AMEMBASSY DAKAR 0741
RUEHKM/AMEMBASSY KAMPALA 1174
RUEHNR/AMEMBASSY NAIROBI 3517
RUEHFR/AMEMBASSY PARIS 0947
RUEHRO/AMEMBASSY ROME 1575
RUEHBS/USEU BRUSSELS
RUEHGV/USMISSION GENEVA 0548
RHEHNSC/NSC WASHDC
RUCNDT/USMISSION USUN NEW YORK 1330
RUEKJCS/JOINT STAFF WASHDC
RUEHC/DEPT OF LABOR WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
RUEKDIA/DIA WASHDC//DHO-7//
RUCPDOG/DEPT OF COMMERCE WASHDC
RUFOADA/JAC MOLESWORTH RAF MOLESWORTH UK//DOOC/ECMO/CC/DAO/DOB/DOI//
RUEPGBA/CDR USEUCOM INTEL VAIHINGEN GE//ECJ23-CH/ECJ5M//

UNCLAS SECTION 01 OF 02 HARARE 000232

SIPDIS

C O R R E C T E D C O P Y (CHANGES IN PARA 2)

SENSITIVE
SIPDIS

AF/S FOR B. NEULING
NSC FOR SENIOR AFRICA DIRECTOR C. COURVILLE
STATE PASS TO USAID FOR M. COPSON AND E. LOKEN
TREASURY FOR J. RALYEA AND B. CUSHMAN
COMMERCE FOR BECKY ERKUL

E.O. 12958: N/A
TAGS: [ECON](#) [EFIN](#) [PGOV](#) [ZI](#)
SUBJECT: OPPOSING DEEPER IMF ENGAGEMENT WITH ZIMBABWE

REF: A. HARARE 127

- [1](#)B. HARARE 98
- [1](#)C. 05 HARARE 1485
- [1](#)D. 05 HARARE 1269

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Summary

[1](#)1. (SBU) By paying off its arrears to the IMF General Resources Account (GRA), the GOZ has met only one of two conditions for IMF re-engagement. The GOZ has failed persistently to implement - or even articulate - a comprehensive policy reform package to turn around the economy since falling subject to the IMF compulsory withdrawal procedure two years ago. In addition, the opaque and possibly criminal circumstances of the arrears payment should confound any nascent support for rapprochement among IMF Executive Board members. End Summary.

Action Request

[1](#)2. (SBU) To sustain pressure on the GOZ regime and to keep the focus on reform, we have agreed to a USG no vote to restoration

of Zimbabwe's IMF voting rights at the March 8 meeting of the IMF Executive Board. However, we understand that the vote on restoration of Zimbabwe's IMF voting rights (which requires a 70 percent majority to restore) may be close. Accordingly, we urge that the USG lobby key IMF Executive Directors and their capitals to join us in voting against restoration of Zimbabwe's voting rights.

No Comprehensive Economic Policy Reform

¶3. (SBU) The IMF 2005 Article IV Consultation called on Zimbabwe to enact fundamental structural reforms and to improve economic governance. Specifically it recommended that the GOZ: reduce its budget deficit, liberalize the exchange regime and unify exchange rates, depreciate the Zimbabwe dollar, tighten monetary policy and bring down the inflation rate, and curtail the Reserve Bank of Zimbabwe's (RBZ) budget-busting quasi-fiscal activity, which, if accounted for in the budget would push the deficit above 50 percent of GDP.

¶4. (SBU) However, across the board, the GOZ has failed to enact these recommended reforms. To cite one egregious example, the GOZ did introduce a liberalized interbank foreign exchange market in October. However, due to mixed messages from the government it got off to a hesitant start. When it did begin to gather steam and the official rate began to depreciate rapidly, the GOZ pulled the plug (refs C and B). The RBZ has now once more effectively frozen the exchange rate, leaving the local currency grossly overvalued, Zimbabwe's foreign exchange position precarious and a cloud of uncertainty hanging over the business community.

¶5. (SBU) Looking back over two years of GOZ economic policy since the IMF Managing Director issued a Complaint with Respect to Compulsory Withdrawal, the GOZ has displayed an

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utter refusal to pursue the most basic of badly needed economic reforms. Faced with exploding expenditures and a widely acknowledged quadruple-digit rate of inflation, it has exhibited neither the political will to articulate a comprehensive reform package nor the commitment to follow through on even the inadequate and piecemeal adjustments that have been promulgated. It has also demonstrated a lack of requisite respect across the board for the rule of law and property rights to attract investment or donor support, and generate growth.

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Arrears Payment: Opaque, Inflationary, Criminal

¶6. (SBU) The manner in which the RBZ paid down the GRA arrears was crassly opaque, probably inflationary, and possibly criminal. The RBZ only recently disclosed that it had printed Z\$21 trillion to buy and raise foreign currency to pay down the arrears, apparently through the illegal but pervasive parallel foreign exchange market. The RBZ is also believed to have offered "special" foreign exchange rates to key exporters and other forex holders. These policies resulted in a surge in the money supply, which spurred inflation. In addition, the RBZ's foreign currency purchases caused the parallel market rate to shoot up.

¶7. (SBU) There are also credible reports, which the GOZ has failed to counter, that the RBZ illegally raided Foreign Currency Accounts (FCAs) to secure the needed funds (ref D). These reports underscore the GOZ's utter lack of respect for property rights. Moreover, the government's refusal to come clean as to the source of the funds further demonstrates their lack of fitness to be full voting members of the IMF.

Comment

18. (SBU) As we have stressed previously (ref A), Board refusal to restore Zimbabwe's voting rights is important to underscore how much Zimbabwe has yet to do to qualify for its ultimate goal -- balance of payments support. It is imperative that the international community not signal to a regime in ever more dire straits that it has any hope of a lifeline until fundamental reform is implemented. Rather than being an impetus to change, as some Europeans have argued, we believe such a signal would only induce the regime to further delay those changes so desperately needed by this country.

SCHULTZ